

DISCLAIMER

This electronic version of an SCC order is for informational purposes only and is not an official document of the Commission. An official copy may be obtained from the [Clerk of the Commission, Document Control Center](#).

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, July 16, 1998

APPLICATION OF

SHENANDOAH GAS COMPANY

CASE NO. PUE970616

For authority to increase its rates
and charges for gas service and to
revise its tariffs

FINAL ORDER

On August 1, 1997, Shenandoah Gas Company ("Shenandoah" or the "Company") filed a general rate application requesting authority to increase its rates and charges for natural gas service and to revise its tariffs. The proposed rates are designed to increase Shenandoah's total annual operating revenues by \$2,306,000.

The case was heard before Hearing Examiner, Alexander F. Skirpan, Jr., on March 18, 1998, with only the Company and Staff participating. The Company and Staff tendered an Offer of Stipulation that proposed agreement on all issues in the case except the proper cost of capital and capital structure. That stipulation was subsequently amended to include language concerning the realignment of the regulatory activities of the

Company's parent, Washington Gas Light ("WGL"), in response to problems noted by Staff Witness Cody D. Walker ("Amended Stipulation").

Pursuant to the Company's request and an Examiner's Ruling dated April 6, 1998, Shenandoah filed revised interim rates designed to recover an increase of \$2,017,244 effective for service rendered on and after April 8, 1998. The revised interim rates incorporated Staff's revenue requirement adjustments, Shenandoah's requested cost of capital, and Staff's revenue apportionment and rate design recommendations.

On June 5, 1998, the Examiner issued his Report. In his Report, he found the Amended Stipulation to be "a reasonable and just resolution to all revenue requirement (other than cost of capital), rate design, and revenue apportionment issues." The Examiner also found that the capital structure should be the average capital structure for the period ending September 30, 1997, as proposed by the Company, except that short-term debt should be based upon the actual average daily balance for the twelve month period ending September 30, 1997, without the \$30 million reduction proposed by the Company.¹ The Examiner made the following additional findings and recommendations:

¹ The Company proposed that all elements of the capital structure, with the exception of short-term debt, be based on an average calculated using the end of each quarter period for the year ending September 30, 1997. The Company also proposed that short-term debt be based on the daily average balance of short-term debt for the period ending September 30, 1997, adjusted to remove

(1) The use of a test year ending March 31, 1997, is proper in this proceeding;

(2) The Company's test year operating revenues, after all adjustments, were \$21,172,908;

(3) The Company's test year operating revenue deductions, after all adjustment, were \$18,516,517;

(4) The Company's test year net operating income and adjusted net operating income, after all adjustments, were \$2,656,391 and \$2,640,881, respectively;

(5) The Company's current rates produce a return on adjusted rate base of 6.74% and a return on equity of 6.36%;

(6) The Company's current cost of equity is within a range of 10.20% - 11.20%, and the Company's rates should be established based on the 10.70% midpoint of the equity range;

(7) The Company's overall cost of capital, using the midpoint of the equity range and capital structure found reasonable, is 9.062%.

(8) The Company's adjusted test year rate base is \$39,160,271;

(9) The Company's application requesting an annual increase in revenues of \$2,306,000 is unjust and unreasonable

\$30 million of short-term debt refinanced with long-term debt on September 25, 1997.

because it will generate a return on rate base greater than 9.062%.

(10) The Company requires \$1,435,198 in additional gross annual revenues to earn a 9.062% return on rate base;

(11) The Company's proposed rate design, its revenue apportionment, including the establishment of separate rate schedules for residential service, commercial and industrial service, group metered apartment service, and interruptible service should be modified in accordance with the Amended Stipulation;

(12) The Company should institute new miscellaneous charges and adjust existing miscellaneous charges in accordance with the Amended Stipulation;

(13) The Company should file permanent rates designed to produce the additional revenues found reasonable using the revenue apportionment methodology proposed by the Staff and agreed to by the Company in the Amended Stipulation;

(14) The Company should be required to refund, with interest, all revenues collected under its interim rates in excess of the amount found just and reasonable;

(15) The Company shall revise the Margin Sharing Mechanism to exclude from the calculation the non-gas margins as specified in the Amended Stipulation;

(16) The Company shall conduct a new depreciation study and file it with the Commission by the earlier of its next rate filing, or before March 18, 2001; and

(17) The Company shall implement Staff's accounting recommendations as detailed in Witness Sartelle's testimony in accordance with the Amended Stipulation.

The Examiner recommended that the Commission enter an order that adopts the findings in his Report; grants the Company an increase in gross annual revenues of \$1,435,198; and directs the prompt refund of all amounts collected under interim rates in excess of that found reasonable in his Report.

On June 19, 1998, Shenandoah filed comments on the Hearing Examiner's Report. In its comments Shenandoah requested that the Commission adopt the Hearing Examiner's findings and recommendations with the exception of the findings relative to short-term debt and cost of equity. Shenandoah requested that the Commission adopt its adjustment reducing the average daily balance of short-term debt in its capital structure by \$30 million and adopt its recommended cost of equity range of 12.0% - 12.5%.

NOW THE COMMISSION, having considered the Examiner's Report, the Amended Stipulation, the comments to the Report, and the applicable statutes and rules, is of the opinion and finds that the findings and recommendations contained in the

Examiner's Report are reasonable and should be adopted. We recognize that the use of an average capital structure reflects a change from the capital structure approved in the past for Shenandoah. In this case, however, we believe that the Hearing Examiner's recommendation appears to provide the most reasonable capital structure on a prospective basis. Accordingly,

IT IS ORDERED THAT:

(1) The finding and recommendations contained in the Examiner's June 5, 1998 Report are hereby adopted and Shenandoah shall comply with the directives contained in the findings set out in that Report and in this Order.

(2) On or before September 1, 1998, Shenandoah shall file revised schedules of rates and charges and revised terms and conditions of service consistent with the findings herein, effective for service rendered on and after July 31, 1998.

(3) On or before October 1, 1998, Shenandoah shall refund, with interest as directed below, all revenues collected from the application of the interim rates, which became effective for service rendered on and after December 28, 1997, to the extent such revenues exceeded, on an annual basis, the revenues that would have been collected by application of the permanent rates to be filed in compliance with this Order.

(4) Interest upon such refunds shall be computed from the date payment of each monthly bill was due during the interim

period until the date refunds are made, at an average prime rate for each calendar quarter. The applicable average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin, or in the Federal Reserve's Selected Interest Rates, for the three months of the preceding calendar quarter.

(5) The interest required to be paid shall be compounded quarterly.

(6) The refunds ordered in paragraph (3) herein may be accomplished by credit to the appropriate customer's account for current customers (each refund category being shown separately on each customer's bill). Refunds to former customers shall be made by a check to the last known address of such customers when the refund amount is \$1.00 or more. Shenandoah may offset the credit or refund to the extent no dispute exists regarding the outstanding balances of its past or current customers. To the extent that outstanding balances of such customers are disputed, no offset shall be permitted for the disputed portion.

Shenandoah may retain refunds owed to former customers when such refund is less than \$1.00; however, Shenandoah shall prepare and maintain a list detailing each of the former accounts for which refunds are retained and, in the event such former customers request refunds, such refunds shall be made promptly. All

unclaimed refunds shall be handled in accordance with § 55-210.6:2 of the Code of Virginia.

(7) On or before November 2, 1998, Shenandoah shall file with the Commission's Division of Energy Regulation a document showing that all refunds have been lawfully made pursuant to this Order and itemizing the costs of the refund and account charged. Such itemization of costs shall include, inter alia, computer costs, personnel hours, associated salaries and costs for verifying and correcting the refund methodology and developing a computer program.

(8) Shenandoah shall bear all costs of the refunds directed herein.

(9) This case shall be dismissed and the papers placed in the file for ended causes.